

IN THE SUPREME COURT OF NOVA SCOTIA**IN THE MATTER OF:**The Companies' Creditors Administration
1985, c. C-36 as amended

- and -

IN THE MATTER OF:A Plan of Compromise or Arrangement of the Applicant,
Federal Gypsum Company**AFFIDAVIT**

I, Michael R. Simpson, of Dallas, in the State of Texas, make oath and say as follows that:

Introduction

1. I am a Director and Executive Vice President of Federal Gypsum Company (the "Company") and, as such, have personal knowledge of the matters to which I hereinafter depose, except where otherwise acknowledged to be on the basis of information and belief, in which case I believe such information to be true.

Initial Order

2. On September 18, 2007, Mr. Justice A. David MacAdam issued an initial order (the "Initial Order") granting the Company relief pursuant to the *Companies' Creditors Arrangement Act*, RSC 1985, c. C-36, as amended (the "CCAA").
3. The terms of the Initial Order provided that Paul G. Goodman of BDO Dunwoody Goodman Rosen Inc. be appointed monitor of the Company (the "Monitor").
4. The terms of the Initial Order also provided an initial stay period to expire on October 18, 2007.

Purpose of this Application

5. This affidavit is provided in support of an application for an Order:
 - (a) extending the Stay Termination Date as provided in paragraph 3 of the Initial Order from October 18, 2007 to November 29, 2007;
 - (b) extending the date for the filing of the Plan (as defined in the Initial Order) as provided in paragraph 23 of the Initial Order to November 29, 2007 or such later date as may be fixed by this Honourable Court; and

- (c) extending the date for the filing of materials necessary to summon and convene meetings between the Company and its classes of creditors under the Plan to consider and approve the Plan as provided in paragraph 24 of the Initial Order.

Cooperation with the Monitor

6. Since the date of the Initial Order, the Company has been assisting the Monitor in carrying out its functions under the terms of the Initial Order. The Company has prepared weekly cash flow statements (the "Cash Flow Statements"). Copies of these statements dated September 23, 2007, September 28, 2007, October 5, 2007 and October 12, 2007 are attached to this my affidavit as Exhibits "A", "B", "C" and "D" respectively.

7. As requested by the significant secured creditors of the Company, it is my understanding that copies of the cash flow statements have been forwarded to them by the Monitor.

8. The Company is working closely with the Monitor to ensure that the appropriate mechanisms are in place for the Monitor to ensure compliance with the Initial Order.

Progress of the Company

9. Since the date of the Initial Order, the Company has been active in addressing some of the operating issues set out in the affidavit filed with this Honourable Court by Rhyne Simpson, Jr. In particular, the Company has hired two experienced salesmen with established books of business in the Canadian market. In addition, the Company continues to pursue potential sales opportunities in other markets. Both of these avenues present significant opportunities for the Company to increase its sales.

10. The Cash Flow Statements indicate that the Company is successfully managing its cash flows. The statement dated October 12, 2007 reports a positive cumulative net cash flow of \$172,530.40 with outstanding accounts payable in the amount of \$27,522.43. The Company recognizes a decrease in sales from expected levels with a resulting decrease in the amount of accounts receivable. However, these results are consistent with the difficulties experienced by the Company as noted in Rhyne Simpson, Jr's affidavit and described in para. 9 do not yet reflect the significant efforts of the Company's new salesmen who only started to work for the Company on October 1, 2007. Since that time, the Company has received orders from sources which previously had not been available to the Company. It is anticipated that these efforts in the Canadian market will be reflected in future cash flow statements. To date, none of the Company's projections assume any sales in other markets as the Company is still investigating cost-effective methods of shipping its product to these markets.

11. The Company has also been seeking additional financing to allow the Company to continue to operate beyond the Stay Termination Date set out in the Initial Order. Several potential lenders have been considered and approaches have been made to some of these lenders.

12. The Company has recently received a term sheet from Century Services Inc. ("Century"), who the Company understands is an established provider of debtor-in-possession financing. The proposed term sheet contemplates funding in the amount of \$1,500,000 which would, subject to the approval of this Honourable Court, enable the Company to:

- (a) provide debtor-in-possession financing to the Company in the amount of up to \$1,000,000 which would be sufficient, in my opinion, to service the cash flow needs of the Company as set out in the cash flow projections initially set out in the affidavit of Rhyne Simpson, Jr. described in para. 9, filed in connection with the initial application; and
- (b) provide for the retirement of the operating line provided by Royal Bank of Canada.

13. It is contemplated as part of any proposed financing with Century that, subject to the approval of this Honourable Court, the existing debtor-in-possession financing provided by Santa Fe Resources, LLC would also be retired, leaving Century as the sole provider of debtor-in-possession financing to the Company.

14. The term sheet provided by Century is currently in the process of being reviewed by the Company. The Company expects to conclude its negotiations with Century within the next seven to ten days and expects to return to this Honourable Court to seek the approval of any proposed arrangements with Century shortly after that.

Requirement for an Extension

15. The Company has been engaged in the process of restructuring its business and operations and the formulation of a plan which seeks to balance the interests of all of the Company's stakeholders. It is my belief that, as part of such process, the Company has acted, and will continue to act, in good faith and with due diligence.

16. As part of the development of the Plan, the Company has recently arranged for an appraisal of the assets of the Company by Universal Worldwide LLC. The appraisal is being conducted on both a liquidation and going-concern basis. The purpose of the appraisal is to allow the Company to present accurate information to its various stakeholders as part of the consideration of the Plan. The Company expects to have the appraisal in its possession before the end of the month of October.

17. An extension of the Stay Termination Date would allow the Company to accomplish the following:

- (a) continue with its recent efforts to improve sales, which are expected to yield positive results;
- (b) provide for additional debtor-in-possession financing to service the Company's cash flow needs in the short and medium term until the Plan is presented to the Company's stakeholders;
- (c) complete the appraisal of the assets of the Company;
- (d) complete cash flow forecasts and income statement and balance sheet projections for the 2008, 2009 and 2010 years; and
- (e) finalize the elements of the Plan.

18. I believe that if the Stay Termination Date is not extended, some of the creditors of the Company will commence proceedings against the Company in relation to the enforcement of their security. Such proceedings would be highly prejudicial to the interests of the Company and would significantly impair the Company's ability to complete a successful restructuring.

SWORN TO at Halifax, in the County of
Nova Scotia, this 15th day of October,
2007, before me:


A Barrister of the Supreme Court of
Nova Scotia

LYDIA S. BUGDEN


MICHAEL R. SIMPSON


2007

No. SH 285667

This is Exhibit "A" referred to in
the Affidavit of Michael R. Simpson

sworn before me this

15th day of October, 2007



A Barrister of the Supreme Court
of Nova Scotia

LYDIA S. BUGDEN

FEDERAL GYPSUM COMPANY
VARIANCE ANALYSIS
SEPTEMBER 23, 2007

	Week of:			Period to Date:		
	Projected	Actual	Variance	Projected	Actual	Variance
Cash Receipts						
A/R Receipts	198,000.00	144,281.59	(53,718.41)	198,000.00	144,281.59	(53,718.41)
Expenses						
Freight	12,841.31	7,446.50	5,194.81	12,841.31	7,446.50	5,194.81
Leases	3,000.00		3,000.00	3,000.00		3,000.00
Direct Costs						
Salaries/Wages	55,200.00		55,200.00	57,600.00		57,600.00
Employee Benefits						
Raw Materials						
Paper	11,000.00		11,000.00	11,000.00		11,000.00
Gypsum	12,000.00		12,000.00	12,000.00		12,000.00
Others	8,063.55		8,063.55	8,095.33		8,095.33
Utilities						
Natural Gas	10,000.00		10,000.00	15,000.00		15,000.00
Electricity	10,000.00		10,000.00	15,000.00		15,000.00
Water						
Contracted Services	1,800.00		1,800.00	1,800.00		1,800.00
Insurance - Property/Casualty	12,412.13		12,412.13	12,412.13		12,412.13
Manufacturing Supplies	2,000.00	399.00	1,601.00	2,000.00	399.00	1,601.00
Repair Supplies	4,000.00		4,000.00	4,000.00		4,000.00
Total Direct Costs	124,276.89	399.00	123,876.89	139,707.46	399.00	139,308.46
Selling Expenses						
Salaries/Wages		5,000.00	(5,000.00)		5,000.00	(5,000.00)
Travel						
Vehicle						

Meals & Entertainment					
Telephone					
Total Selling Expenses	-	5,000.00	(5,000.00)	-	(5,000.00)
General & Administrative Expenses					
Professional Fees					
Legal	50,000.00		50,000.00	50,000.00	50,000.00
Accounting			-	-	-
Consulting	25,000.00		25,000.00	25,000.00	25,000.00
Contracted Services			-	-	-
Travel			-	-	-
Vehicle			-	-	-
Meals & Entertainment			-	-	-
Insurance - Receivables			-	-	-
Postage/Express/Mail			-	-	-
Office Supplies			-	-	-
Telephone			-	-	-
Bank Charges			-	-	-
Janitorial Exp			-	-	-
DIP Fees and Interest	4,000.00		4,000.00	4,000.00	4,000.00
HST			-	-	-
Occupancy Taxes			-	-	-
Property Taxes			-	-	-
Total General & Admin Expenses	79,000.00	-	79,000.00	79,000.00	79,000.00
Total Selling, General & Admin Expenses	79,000.00	5,000.00	74,000.00	79,000.00	74,000.00
Total Cash Outflow	218,918.99	12,845.50	206,071.49	234,348.77	221,503.27
NET CASH FLOW	(20,916.99)	131,436.09	152,363.08	(36,348.77)	167,784.86

MIP FINANCING

REVENUE

105,819.26 86,338.78 (19,480.48)

105,819.26 86,338.78 (19,480.48)

2007

No. SH 285667

This is Exhibit "B" referred to in
the Affidavit of Michael R. Simpson.

sworn before me this
15th day of October, 2007


A Barrister of the Supreme Court

of Nova Scotia

LYDIA S. BUGDEN


FEDERAL GYPSUM COMPANY
 VARIANCE ANALYSIS
 SEPTEMBER 25, 2007

	Week of: 9/24/2007			Period to Date: 9/24/2007		
	Projected	Actual	Variance	Projected	Actual	Variance
Cash Receipts						
A/R Receipts	-	26,736.99	26,736.99	198,000.00	173,020.19	(24,979.82)
Expenses						
Freight	12,041.51	22,989.89	(20,042.28)	26,282.82	40,190.09	(14,907.27)
Lease	-	693.71	(693.71)	3,000.00	693.71	2,306.29
Direct Costs						
Salaries/Wages	-	-	-	55,200.00	55,200.00	-
Employee Benefits	-	-	-	-	-	-
Raw Materials						
Paper	-	-	-	11,000.00	-	11,000.00
Gypsum	12,000.00	7,800.00	4,200.00	24,000.00	7,800.00	16,200.00
Others	6,068.55	9,987.90	(3,919.35)	12,127.10	9,987.90	2,139.20
Utilities						
Natural Gas	10,000.00	8,087.78	1,912.22	20,000.00	8,087.78	11,912.22
Electricity	10,000.00	24,000.00	(14,000.00)	20,000.00	24,000.00	(4,000.00)
Water	-	-	-	-	-	-
Contracted Services	1,800.00	3,182.00	(1,382.00)	3,800.00	3,182.00	600.00
Insurance - Property/Casualty	-	-	-	12,412.13	-	12,412.13
Manufacturing Supplies	2,000.00	2,000.00	-	4,000.00	999.00	3,001.00
Repair Supplies	4,000.00	3,718.01	281.99	8,000.00	-	8,000.00
Total Direct Costs	45,908.55	56,365.64	(10,457.09)	169,299.25	58,784.64	110,514.61
Selling Expenses						
Salaries/Wages	-	-	-	-	5,000.00	(5,000.00)
Travel	1,000.00	-	1,000.00	1,000.00	-	1,000.00
Vehicle	1,000.00	-	1,000.00	1,000.00	-	1,000.00
Meals & Entertainment	1,500.00	-	1,500.00	1,500.00	-	1,500.00
Telephone	350.00	-	350.00	350.00	-	350.00
Total Selling Expenses	3,850.00	-	3,850.00	3,850.00	5,000.00	(1,150.00)
General & Administrative Expenses						
Professional Fees						
Legal	10,000.00	50,000.00	(40,000.00)	60,000.00	50,000.00	10,000.00
Accounting	-	-	-	-	-	-
Consulting	-	25,000.00	(25,000.00)	25,000.00	25,000.00	-
Contracted Services	2,500.00	-	2,500.00	2,500.00	-	2,500.00
Travel	7,500.00	698.71	6,801.29	7,500.00	698.71	6,801.29
Vehicle	500.00	-	500.00	500.00	-	500.00
Meals & Entertainment	500.00	-	500.00	500.00	-	500.00
Insurance - Receivables	5,000.00	-	5,000.00	5,000.00	-	5,000.00
Postage/ExpressMail	200.00	-	200.00	200.00	-	200.00
Office Supplies	500.00	-	500.00	500.00	-	500.00
Telephone	4,000.00	-	4,000.00	4,000.00	-	4,000.00
Bank Charges	3,750.00	145.06	3,604.92	3,750.00	145.06	3,604.92
Journal Exp	1,500.00	-	1,500.00	1,500.00	-	1,500.00
DIP Fees and Interest	48.27	-	48.27	4,048.27	-	4,048.27
HST	10,428.78	9,388.93	1,044.85	10,428.79	9,383.93	1,044.86
Occupancy Taxes	-	-	-	-	-	-
Property Taxes	-	-	-	-	-	-
Total General & Admin Expenses	45,427.06	65,218.72	(19,791.66)	125,427.06	85,218.72	40,208.34
Total Selling, General & Admin Expenses	50,277.06	65,218.72	(14,941.66)	129,277.06	90,218.72	39,058.34
Total Cash Outflow	106,581.86	174,961.86	(68,380.00)	327,498.92	187,797.16	139,701.76
NET CASH FLOW	(106,581.86)	(148,224.87)	(41,643.01)	(129,498.92)	(14,776.96)	114,721.94
ACCOUNTS PAYABLE		(84,088.89)			(84,088.89)	
DIP FINANCING		186,826.51			186,826.51	
CASH BALANCE					100,012.94	
REVENUE	105,819.28	111,897.94	6,078.66	211,598.53	187,956.12	(23,642.41)

2007

No. SH 285667

This is Exhibit "C" referred to in
the Affidavit of Michael R. Simpson
sworn before me this
15th day of October, 2007



A Barrister of the Supreme Court
of Nova Scotia
LYDIA S. BUGDEN

FEDERAL GYPSUM COMPANY
VARIANCE ANALYSIS
OCTOBER 5, 2007

	Week of:			Period to Date:		
	Projected	Actual	Variance	Projected	Actual	Variance
Cash Receipts	247,500.00	306,443.30	58,943.30	445,500.00	479,463.48	33,963.48
A/R Receipts						
Expenses	26,071.97	12,088.50	13,982.47	51,354.59	52,218.59	(865.00)
Freight						
Leases	12,000.00	10,597.49	1,402.51	15,000.00	11,261.20	3,738.80
Direct Costs	57,800.00	116,661.16	(58,861.16)	112,800.00	116,661.16	(3,861.16)
Salaries/Wages	6,500.00	6,318.14	(181.86)	6,500.00	6,318.14	(181.86)
Employee Benefits						
Raw Materials						
Paper	12,000.00	12,000.00	-	11,000.00	19,500.00	16,500.00
Gypsum	9,086.33	2,500.00	6,586.33	21,222.43	12,437.90	8,784.53
Others						
Utilities	15,000.00	9,973.43	5,026.57	35,000.00	18,011.16	16,988.84
Natural Gas	15,000.00	12,000.00	3,000.00	35,000.00	36,000.00	(1,000.00)
Electricity	4,000.00		4,000.00	4,000.00		4,000.00
Water				3,200.00	3,182.00	18.00
Contracted Services				12,412.13		12,412.13
Insurance - Property/Casualty	2,000.00	862.22	1,137.78	6,000.00	1,261.22	4,738.78
Manufacturing Supplies	4,000.00	15,479.41	(11,479.41)	12,000.00	15,479.41	(3,479.41)
Repair Supplies						
Total Direct Costs	124,195.33	175,794.36	(51,599.03)	294,134.56	232,579.00	61,555.56
Selling Expenses		14,630.58	(14,630.58)		14,630.58	(14,630.58)
Salaries/Wages		3,191.38	(3,191.38)		3,191.38	(2,191.38)
Travel						
Vehicle				1,000.00		1,000.00

2007

No. SH 285667

This is Exhibit "D" referred to in
the Affidavit of Michael R. Simpson
sworn before me this
15th day of October, 2007



A Barrister of the Supreme Court
of Nova Scotia

LYDIA S. BUGDEN

FEDERAL GYPSUM COMPANY
 VARIANCE ANALYSIS
 OCTOBER 12, 2007

Week of:
 10/8/2007

Period to Date:
 10/8/2007

	Projected	Actual	Variance	Projected	Actual	Variance
Cash Receipts	-	13,220.73	13,220.73	445,500.00	492,684.21	47,184.21
A/R Receipts	-	-	-	-	-	-
Expenses						
Freight	22,071.97	12,114.33	9,957.64	73,426.56	64,333.92	9,092.64
Leases	-	962.89	(962.89)	15,000.00	12,224.09	2,775.91
Direct Costs						
Salaries/Wages	12,000.00	-	12,000.00	124,800.00	116,661.16	8,138.84
Employee Benefits	-	-	-	5,500.00	6,318.14	(818.14)
Raw Materials	11,000.00	-	11,000.00	22,000.00	-	22,000.00
Paper	12,000.00	-	12,000.00	48,000.00	19,500.00	28,500.00
Gypsum	8,095.33	-	8,095.33	30,317.76	12,457.90	17,879.86
Others	15,000.00	-	15,000.00	50,000.00	28,011.16	21,988.84
Utilities	15,000.00	10,000.00	5,000.00	50,000.00	46,000.00	4,000.00
Natural Gas	15,000.00	12,000.00	3,000.00	4,000.00	-	4,000.00
Electricity	1,600.00	-	1,600.00	4,800.00	3,192.00	1,608.00
Water	2,000.00	250.79	1,749.21	12,412.13	-	12,412.13
Contracted Services	4,000.00	-	4,000.00	8,000.00	1,261.22	6,738.78
Insurance - Property/Casualty	2,000.00	-	2,000.00	16,000.00	19,448.21	(3,448.21)
Manufacturing Supplies	4,000.00	-	4,000.00	16,000.00	-	16,000.00
Repair Supplies	81,655.33	22,250.79	59,404.54	375,829.89	254,828.79	121,000.10
Total Direct Costs	81,655.33	22,250.79	59,404.54	375,829.89	254,828.79	121,000.10
Selling Expenses						
Salaries/Wages	15,000.00	-	15,000.00	15,000.00	19,630.58	(4,630.58)
Travel	-	-	-	1,000.00	3,191.38	(2,191.38)
Vehicle	-	-	-	1,000.00	-	1,000.00

Meals & Entertainment	-	-	-	1,500.00	-	-	1,500.00
Telephone	-	-	-	350.00	-	-	350.00
Total Selling Expenses	15,000.00	-	15,000.00	18,850.00	22,821.96	-	(3,971.96)

General & Administrative Expenses							
Professional Fees							
Legal	10,000.00		10,000.00	80,000.00	55,147.36		24,852.64
Accounting			-	5,000.00	-		5,000.00
Consulting		4,164.42	(4,164.42)	35,000.00	43,215.60	(8,215.60)	
Contracted Services		486.21	(486.21)	2,500.00	49,509.25	(47,009.25)	
Travel			-	7,500.00	3,010.95		4,489.05
Vehicle			-	500.00	1,128.48		(628.48)
Meals & Entertainment			-	500.00	-		500.00
Insurance - Receivables			-	5,000.00	-		5,000.00
Patgas/XpressMail			-	200.00	302.50	(102.50)	
Office Supplies			-	600.00	959.96	(459.96)	
Telephone			-	4,000.00	977.48	3,022.52	
Bank Charges		9.78	(9.78)	3,750.00	803.43	2,946.57	
Janitorial Exp			-	1,500.00	-		1,500.00
D/P Fees and Interest	160.53		160.53	4,507.65	-		4,507.65
HST			-	10,428.79	9,383.83		1,044.96
Occupancy Taxes			-	-	-		-
Property Taxes			-	-	-		-
Total General & Admin Expenses	10,160.53	4,660.39	5,500.14	160,896.44	164,436.94	(3,550.50)	
Total Selling, General & Admin Expenses	25,160.53	4,660.39	20,500.14	179,796.44	187,258.90	(7,522.46)	
Total Cash Outflow	128,927.83	39,988.40	88,939.43	643,982.89	518,646.70	125,346.19	

NET CASH FLOW (128,927.83) (26,767.87) 102,160.16 (188,482.89) (25,962.49) 172,530.40

ACCOUNTS PAYABLE				(27,822.43)
DIP FINANCING		198,826.51		198,826.51
CASH BALANCE				145,341.59
REVENUE	186,033.90	107,886.49	(58,347.41)	543,208.32
				390,024.64
				(153,181.68)

IN THE MATTER OF:

The Companies' Creditors Arrangement Act, R.S.C. 1985, c. C-36 as amended

- and -

IN THE MATTER OF:

A Plan of Compromise or Arrangement of the Applicant, Federal Gypsum
Company

AFFIDAVIT

STEWART McKELVEY
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